

## STATEMENT OF INVESTMENT POLICY

### PURPOSE

To set forth the City's policy concerning the investment of temporarily idle funds. It is the policy of the City to invest funds not required for immediate expenditures. Investments will be in compliance with governing provisions of law and the policy contained herein. Primary investment goals are security of principal, adequate liquidity maintenance, and yield, in that order. Investments shall be placed only in securities as outlined below. The balance between various investment instruments may change in order to provide the City with the best combination of yield, liquidity, and a consideration for other factors, such as placement of an appropriate percentage of available investment funds locally. It shall be the main responsibility of the City Council, in adopting this policy and reviewing the investment holdings on a monthly basis, to preserve the investment principal.

### INVESTMENT AUTHORITY

Under the direction of the City Manager, the investment authority has been delegated to the Director of Administrative Services, who is responsible for administration of the City's investment program, and who shall thereafter provide a monthly report regarding the status and changes in the City's investment portfolio to the City Council. This authority shall be renewed annually as part of the review and update of this Policy. In addition to the monthly investment report that is submitted to the City Council, the Administrative Services Director shall provide more detailed investment information to the City Council as requested. The City Council shall be briefed directly by the City's investment advisors on a quarterly basis whenever possible.

Sections 53600-53601 of the California Government Code provide basic investment limits and guidelines for government entities. In the event an apparent discrepancy is found between this policy and Sections 53600-53601, the more restrictive parameters will take precedence.

### FINANCIAL INSTITUTIONS

The City shall not deposit funds with any financial institution not receiving a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation (§53635.2).

## LIQUIDITY

Sufficient funding to accommodate at least two-week's projected cash outflow is to be maintained in immediately available investments, such as the State Local Agency Investment Fund, maturing certificates of deposit, or similar liquid instruments. An analysis of cash flow must be conducted at least weekly to serve as the basis for determining appropriate maturities for investments. At no time shall the liquid cash on hand be less than 5 percent of the City's total investment portfolio. For purposes of this policy, cash on hand includes all cash and investments accessible within 48 hours.

## ACCEPTABLE INVESTMENT INSTRUMENTS

The following are types of investments made by the City and the guidelines for investing in each. In all cases, investments shall be made in the context of the "Prudent Investor Standard," spelled out in the California Government Code, Section 53600.3 as follows:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investment may be acquired as authorized by law.”

In this light, the City of Newport Beach does not purchase or sell securities on margin. Additionally, any institution, which holds either the collateral or the investment instruments themselves in safekeeping for the City, must maintain at least one billion dollars (\$1,000,000,000) in assets.

### A. Certificates of Deposit

Only fully collateralized certificates of deposit with FDIC insured institutions will be utilized in investment of City funds. Government securities having a market value of 110 percent of the total amount of investment are acceptable as

collateral. Noncollateralized CD investments may be made in amounts less than the FDIC limit, so long as they are fully insured by the FDIC.

Not more than 10 percent of the City's investment portfolio shall be invested in certificates of deposit with any one institution. CD's will not be placed for a period of longer than one year. Further, an institution must meet the following criteria to be considered by the City:

1. The institution must maintain at least \$1 billion in assets (\$100 million for fully insured CDs up to the FDIC limit).
2. The institution must have been in business at least three years.
3. The institution must have a net worth to asset ratio of at least 6 percent.
4. The institution must place and maintain on file with the City an audited financial statement not more than one year old.
5. Interest shall be paid to the City on a monthly basis.

Consistent with the requirements for CD investments, funds deposited in savings accounts must either be FDIC insured or collateralized.

B. Negotiable Certificates of Deposit

As a matter of policy, the City invests in Negotiable Certificates of Deposit (CDs) only with U.S. Banks whose underlying securities are rated A-1 or P-1 by one of the top two rating agencies and having assets in excess of \$10 billion, so as to insure security and a large, well-established secondary market. Ease of subsequent marketability is further ascertained prior to initial investment by examining currently quoted bids by primary dealers and the acceptability of the issuer by these dealers. No one issuer shall exceed more than 10 percent of the portfolio, and maturity shall not exceed one year. The California Government Code Section 53601 limits investment in negotiable certificates of deposit to 30 percent of the portfolio.

C. Bankers Acceptances

The City may invest only in Bankers Acceptances issued by the 100 largest banks in the world, which are eligible for purchase by the Federal Reserve System, the short term paper of which is rated at the highest category by Moody's and Standard & Poor's. In the case of foreign banks, the Bankers Acceptances must be written by their U.S. branches. Maximum maturity shall be 180 days. No more than 30 percent of the City's overall investment portfolio shall be placed in Bankers Acceptances, with no more than 10 percent of the City's portfolio invested in the banker's acceptances of any one commercial bank.

D. U.S. Treasury Issues

The City may invest in treasury notes, bills and bonds. The final maturity of any U.S. Treasury issue shall not exceed five years from the date of trade settlement.

E. Federal Agency or United States Government-Sponsored Enterprise Obligations

Securities of this type that are acceptable for the City's investments are Federal National Mortgage Association, Federal Home Loan Bank notes, Federal National Mortgage Association notes, Federal Farm Credit Bank notes, Federal Home Loan Mortgage Corporation notes, or any other U. S. Government Agency security.

F. Commercial Paper

The City may only invest in commercial paper of "prime" quality with the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2).

1. The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars (\$500,000,000). (C) Has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.
2. The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

(B) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Commercial paper shall be used solely as a short-term investment not to exceed 270 days. No more than 25 percent of the City's portfolio may be invested in commercial paper. Investment in commercial paper of any one issuer shall not exceed 10 percent of the portfolio.

G. Repurchase Agreements (Repos) and Reverse Repurchase Agreements

Repos and reverse repos shall be used solely as a short-term investment not to exceed 30 days. The institution from which the City purchases a Repo must deliver adequate collateral to the City's safekeeping account (either directly or through a third party safekeeping agent), consisting of U.S. Treasury or Agency securities at the rate of 102 percent of the face value of the repo. The amount of this collateral must be sufficient to compensate for fluctuating market conditions. Repos will only be purchased from Primary Dealers.

The City must own assets for more than 30 days before they can be used as collateral for a reverse repurchase agreement. No more than 10 percent of the portfolio can be involved in reverse repos.

H. Local Agency Investment Fund (LAIF) (State of California)

State Regulation of LAIF is set forth in California Government Code Section 16429.1. The current limits on any one City investment in this fund is \$40 million, and the number of transactions (deposits or withdrawals) is limited to 15 per month. The City's participation in LAIF shall conform to State Regulation. In general, it is the City's intention to use investment in LAIF as a temporary repository for short-term funds needed for liquidity purposes. The Administrative Services Director shall maintain on file appropriate information concerning LAIF's current investment policies, practices and performance; as well as its requirements for participation, including, but not limited to, limitations on deposits or withdrawals and the composition of the portfolio.

I. County Investment Funds

Los Angeles County provides a service similar to LAIF for municipal and other government entities. This Fund is available to certain cities outside of Los Angeles County, including Newport Beach. Investment in this pool is intended to be used as a temporary repository for short-term funds used for liquidity purposes. At no time shall more than 5 percent of the City's total investment portfolio be placed in this Pool. The Administrative Services Director shall maintain on file appropriate information concerning the county pool's current investment policies, practices and performance; as well as its requirements for participation, including, but not limited to, limitations on deposits or withdrawals and the composition of the portfolio.

The City shall not invest funds with the Orange County Pool.

J. Medium Term Corporate Bonds/Notes

Investments of this type will only be in corporations rated A or better by a NRSRO. Maximum term to maturity for individual securities shall not exceed four years. No more than 30 percent of the City's investment funds shall be placed in securities of this type.

Federal Agency or United States Government-Sponsored Enterprise Obligations Securities of this type that are acceptable for the City's investments are Federal National Mortgage Association, Federal Home Loan Bank notes, Federal National Mortgage Association notes, Federal Farm Credit Bank notes, Federal Home Loan Mortgage Corporation notes, FDIC Insured notes, or any other U. S. Government Agency security.

K. Mortgage-backed Securities and Asset-backed Securities

Investments in securities of this type are limited to mortgage-backed pass-through securities issued by a US government agency; or consumer receivable pass-through certificates or bonds. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by Moody's Investor Services and S&P. The security itself shall be rated in a rating category of "AAA" or its equivalent or better by Moody's Investor Services and S&P. The maximum final stated maturity of any

security of this type shall be five years. No more than 20% of the City's investment funds shall be placed in securities of this type.

L. Municipal Bonds

Municipal bonds rated AAA, or AA and insured, are acceptable investments for the City. Investments of this type are limited to obligations of the State of California and local agencies within the State. Not more than 15 percent of the portfolio shall be in investments of this type.

M. Money Market Funds

The City may invest in Money Market Funds subject to the following constraints. Investment in these funds is primarily intended for short-term "sweep account" purposes, not for longer-term investments.

1. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1.)
2. The company shall have met either of the following criteria:
  - a. Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.
  - b. Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than ten years' experience managing money market mutual funds with assets under management in excess of one billion dollars (\$1,000,000,000).
3. The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge.
4. No more than 20 percent of the City's investment portfolio shall be invested in money market funds.

5. The City shall invest only in Money Market Funds that have a policy of maintaining a constant daily net asset value per share of \$1.00.

#### CONCENTRATION AND DIVERSIFICATION

No more than 5% of the portfolio may be invested in instruments of any one non-governmental issuer. There are no concentration restrictions for U.S. Treasury, FDIC-guaranteed, or other federal agency securities, unless otherwise specified herein. asset/investment managers (see below) must insure that the portion of the investment portfolio within their cognizance complies with this constraint on a pro-rata basis.

#### PROHIBITED INVESTMENTS

Consistent with California Government Code 53601.6, inverse floaters, range notes, mortgage derived interest-only strips, or any security that could result in zero interest accrual if held to maturity are specifically prohibited, except to the extent that they are shares of diversified management companies registered under the Investment Company Act of 1940.

The City shall not purchase any security rated A1 and/or A+ or below if that security has been placed on "credit watch" for a possible downgrade by either Moody's Investor Services or Standard & Poor's.

Investments not specifically approved by this policy are prohibited.

#### ASSET/INVESTMENT MANAGEMENT AGREEMENTS

The City may employ the services of asset/investment management companies. Such companies must have a history of producing relatively high net returns with conservative investment portfolios, while strictly complying with statutory and policy provisions. They must also be well established and exceptionally reputable.

Members of the staffs of such companies who will have primary responsibility for managing the City's investments must have a working familiarity with the special requirements and constraints of investing municipal funds in general and this City's funds in particular. These firms must insure that the portion of the portfolio under their management complies with various concentration and other constraints specified herein, and contractually agree to conform to all provisions of governing law and the collateralization and other requirements of this policy. They must also provide



monthly and quarterly reports as specified in the Reporting Requirements section below, and as otherwise requested by the Administrative Services Director.

At no time shall more than 30 percent of the City's total investment portfolio be placed in any one investment management account. In order to implement this requirement, the City's portfolio assets will be reallocated annually among its investment managers.

#### SAFEKEEPING/THIRD PARTY CUSTODIANS

All cash and securities in the City's portfolio, including those that are being managed by private sector asset/investment management companies, shall be held in safekeeping in the City's name by a third party bank trust department, acting as agent for the City under the terms of a custody agreement executed by the bank and the City. The City will contract separately with major banks or other well-established, reputable financial institutions, which provide custodial services to maintain custody of cash and securities in the City's portfolio. In the case of a major financial institution, the City may have an asset/investment management relationship, and a custodial relationship, with the same entity. However, the services must be provided by separately managed departments within that entity, and the City's assets must be held in the City's name completely separate and distinct from the assets of the institution and from all other portfolios managed by the institution.

All securities will be received and delivered using standard delivery versus payment (DVP) procedures, the City's safekeeping agent will only release payment for a security after the security has been properly delivered. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; and, (ii) money market mutual funds, since the purchased securities are not deliverable.

#### BOND PROCEEDS

The investment of bond proceeds will be made in accordance with applicable bond indentures.

## RATING AGENCY CHANGES

In the event a security held by the City is the subject of a rate drop which brings it below accepted minimums specified herein, or the security is placed on negative credit watch, where downgrade could result in a rate drop below acceptable levels, the investment advisor who purchased the security will immediately notify the Administrative Services Director or Deputy Director of that fact. The course of action to be followed will then be decided on a case by case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further drop, and market price of the security. The City Council will be advised of the situation and intended course of action by e-mail or fax.

## REPORTING REQUIREMENTS

In addition to the Monthly Investment Report, the City Council and City Manager shall receive a detailed quarterly listing of all investments in the City portfolio upon request. The report will show the type of investment, issuer, date of maturity, par and dollar amount of deposit/investment, and rate of interest. Fees charged by investment advisers and custodians under contract to the City will also be provided if requested.

Quarterly reports from outside investment managers, which are regularly reviewed by the Administrative Services Director, must also include market valuation of assets under their management and the source of that valuation, and shall also include a statement of compliance with investment policy. Current ratings of non-government securities, either Moody's or Standard & Poor's, will be included.

In his report to the City Council, the Director of Administrative Services shall include a statement denoting the ability of the City to meet its expenditures for the next six months, and shall also include a statement of compliance with investment policy for assets under his direct management. In addition, the City Council shall be notified whenever 5 percent or more of the total portfolio is invested, withdrawn, or moved from one Investment Advisor or Pool to another.

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